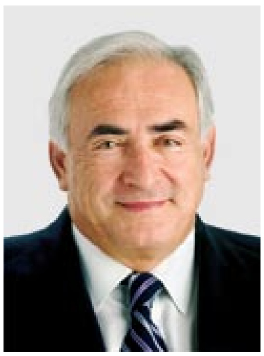
MESSAGE FROM THE MANAGING DIRECTOR



Dominique Strauss-Kahn, IMF Managing Director and Chair of the Executive Board.

At our Spring Meetings in April, I said that the world was between fire and ice: between the risks of accelerating inflation fed by energy and food price increases, and the risks of a global recession precipitated by the U.S. housing market downturn and global financial market crisis. To avoid both the fire and the ice, countries will need good policies and the courage to implement them, and they will need to work together.

The IMF can help. One of the principal features of the financial market crisis has been spillovers across countries and across sectors. These cross-country and macrofinancial linkages are areas where the Fund has a comparative advantage. Already this year, the Fund has advised members on the nature of the risks and the extent of the costs of the financial market crisis. We have also proposed solutions: monetary policy as a first line of defense, fiscal stimulus by governments that can afford it, and measures to address problems in specific sectors, such as housing and finance. We are also advising members hit hard by the food crisis and by higher oil prices, and extending financial support to some of them.

The past year has been a time of major changes in the Fund. Rapid change began under my predecessor, Rodrigo de Rato. As Managing Director from June 2004 to October 2007, Mr. de Rato devised a Medium-Term Strategy that stepped up the Fund's work on financial sector and financial market issues and mandated a sharpening of the focus of the Fund's work on bilateral surveillance and on low-income countries. Under his leadership, the Fund also completed the first stage of quota reform, formulated proposals for reform of the Fund's sources of income, and adopted the 2007 Decision on Bilateral Surveillance Over Members' Policies.

Before my own selection as Managing Director, I toured the world talking to the IMF's Governors and many others interested in the Fund. What I heard was that the Fund is respected, but that it does not always give our members what they need. This convinced me that the Fund needed to accelerate its work on restructuring and refocusing its activities. This conviction was behind my Statement on Refocusing and Modernizing the Fund, which I sent to the Executive Board's Committee on the Budget in December 2007.

The underlying theme of that statement and my subsequent Statement on Strategic Directions in the Medium-Term Budget to the Executive Board was that in all of our areas of responsibility—surveillance, program and near-program work, and capacity building—we should make use of our comparative advantage. My vision for a refocused Fund is that it should be alert to emerging issues, critical in its assessments, and assertive in communicating its concerns, especially with regard to the following:

- Surveillance—with deeper analysis of macrofinancial linkages, exchange rates, and spillovers, and with a more global perspective and cross-country experience brought to bear on policy dilemmas of countries.

- Program and near-program work—with our contribution, including in low-income countries, emphasizing macrofinancial stability—focusing on our associated core expertise.

- Capacity building—with technical assistance focused on macroeconomic issues, prioritized through a mechanism for charges, and augmented by more fund-raising.

The corollary to a refocused Fund is a restructured Fund, with a governance structure better reflecting its membership, a sustainable income model, and lower administrative costs. During FY2008, we have made major progress in completing the restructuring agenda.

- In March 2008 the Executive Board endorsed a package of governance reforms including a new quota formula, a second round of quota increases based on this formula, and amendments to the Articles of Agreement tripling basic votes and strengthening the voice of the African chairs at the Board. Moreover, the package is dynamic in that it mandates further increases in basic votes and envisages further redistribution of quota shares as the global economy changes. The Board of Governors adopted these reforms on April 28, 2008, and we now await acceptance by members of the related amendment to the Articles of Agreement.

- In April 2008, the Board reached broad consensus on a new income model. Once embodied in an amendment to the Articles of Agreement to expand the Fund's investment authority and a decision to conduct limited gold sales, the new model will provide the critical elements for the sustainable financing of the Fund. At the same time, the Board approved a budgetary envelope that will deliver $100 million annual savings in real terms over the next three years, and implies a downsizing of staff by 380 over the same period. This downsizing was accomplished largely through a voluntary separation process that will take effect during FY2009–11.

As a result of the downsizing we will be losing many veteran staff over the next year. I want to salute their contribution. Many staff have given their working lives to the Fund and to its members. Those who are retiring can do so with the knowledge that they have transformed the world through their labor.

But in concluding this message, and looking forward to the next financial year, I also want to praise and thank the much larger number of staff who will stay and work on the next stage of the Fund's remarkable journey. The events of the past year have revealed just how much the world needs a strong Fund and a spirit of multilateralism. The events of the next year and beyond will reveal how far we are able to realize the promise of the Fund. We have a great deal to do. But I know that we have good allies and partners in our work: in the staff, in the Executive Board, and among our global membership.

LETTER OF TRANSMITTAL

TO THE BOARD OF GOVERNORS
AUGUST 28, 2008

August 28, 2008

Dear Mr. Chairman:

I have the honor to present to the Board of Governors the Annual Report of the Executive Board for the financial year ended April 30, 2008, in accordance with Article XII, Section 7*(a)* of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2009, are presented in Chapter 5. The audited financial statements for the year ended April 30, 2008, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix VI, which appears on the CD-ROM. The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Mr. Satoshi Itoh (Chair), Mr. Steve Anderson, and Mr. Thomas O'Neill, as required under Section 20*(c)* of the Fund's By-Laws.

Dominique Strauss-Kahn

DOMINIQUE STRAUSS-KAHN
Managing Director and Chair of the Executive Board

The IMF Executive Board and senior management.